

Message Text

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PAGE 01 LISBON 06053 141456Z

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ACTION EUR-12

INFO OCT-01 ISO-00 SAJ-01 SAM-01 AF-06 CIAE-00 DODE-00

PM-04 H-02 INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01

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FRB-03 TRSE-00 XMB-02 OPIC-03 CIEP-01 LAB-04 SIL-01

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FM AMEMBASSY LISBON

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INFO AMEMBASSY BELGRADE

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AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

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PAGE 02 LISBON 06053 141456Z

TAGS: ETRD, PO, PL, UR

SUBJ: FURTHER DETAILS ON ECONOMIC ASPECTS OF STATE
VISITS TO USSR, POLAND

REF: LISBON 5893

SUMMARY: DISAPPOINTING ECONOMIC RESULTS OF PRESIDENT GOMES' STATE VISITS TO USSR AND POLAND REINFORCED PORTUGAL'S GROWING DISENCHANTMENT WITH EASTERN EUROPE. OF THREE CONTRACTS CONCLUDED DURING OR SHORTLY AFTER TRIP TO SOVIET UNION, THOSE FOR TOMATO PASTE AND WINE PROVIDE FOR SALES PRICES THAT ARE CLEARLY BELOW ESCUDO PRODUCTION COSTS. ASIDE FROM DAMPENING PORTUGUESE EXPECTATIONS OF SOVIET MARKET, THIS EXPERIENCE HIGHLIGHTED INCREASING NEED FOR ESCUDO DEVALUATION. END SUMMARY.

1. BOTH PRESS COVERAGE AND EMBASSY DISCUSSIONS WITH PORTUGUESE BUSINESSMEN AND GOP OFFICIALS REFLECT GENERAL PORTUGUESE DISAPPOINTMENT WITH ECONOMIC RESULTS OF PRESIDENT GOMES' TRIP TO USSR AND POLAND. PRIVATE COMMENTS INDICATE GROWING DISENCHANTMENT ABOUT POSSIBLE LONG-TERM ECONOMIC ASSISTANCE FROM THESE TWO COUNTRIES.

2. EVIDENCE OF DISILLUSIONMENT APPEARED IN SEVERAL WAYS:

A) REVOLUTIONARY COUNCIL MEMBER CAPTAIN VASCO LOURENCO, WHO ACCOMPANIED COSTA GOMES, WAS QUOTED IN A JORNAL NOVO INTERVIEW AS SAYING THAT USSR AND POLAND ANNOUNCED "GOOD INTENTIONS," BUT THAT HE WAS "FED UP" WITH INTENTIONS AND WANTED RESULTS.
B) LOURENCO REPORTEDLY STATED THAT PORTUGAL COULD NOT ACCEPT CURRENT USSR PRICE OFFER FOR PORTUGUESE WINE, AND OFFER THAT IS LOWER THAN USSR PAID PREVIOUSLY FOR SIMILAR PURCHASE. EXTERNAL COMMERCE MINISTER CAMPINOS ALLEGEDLY STATED UPON HIS RETURN FROM MOSCOW THAT RUSSIAN PRICE OFFER WAS SO LOW HE WOULD NOT ALLOW NATIONAL WINE BOARD TO SIGN CONTRACT. SEVERAL PAPERS CLAIMED USSR HAD GIVEN PORTUGAL AN ULTIMATUM TO DECIDE BY OCTOBER 14 WHETHER IT WOULD ACCEPT SOVIET OFFER. (COMMENT: TO ADD INSULT TO INJURY, EMBASSY LEARNED FROM GOP OFFICIALS THAT WINE SOLD PREVIOUSLY TO THE USSR HAS APPARENTLY BEEN RESOLD IN THIRD COUNTRIES.)
C) ACCORDING TO FRONT-PAGE ARTICLE IN THE WEEKLY EXPRESSO, PORTUGUESE MERCHANT SEAMEN HAVE ALLUDED TO FACT THAT AN AVERAGE OF THREE USSR SHIPS CALL AT LISBON EACH DAY. THIS NUMBER OF LIMITED OFFICIAL USE

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PAGE 03 LISBON 06053 141456Z

CALLS, THEY FEEL, SEVERELY DAMAGES PORTUGUESE SHIPPING INTERESTS.
D) THE MINISTER OF AGRICULTURE AND THE SECRETARIES OF STATE FOR FISHERIES, EXTERNAL COMMERCE AND PLANNING INDICATED TO EMBASSY OFFICIALS THAT RESULTS OF PRESIDENT'S VISITS TO POLAND AND USSR WERE DISAPPOINTING.

3. MINISTER OF EXTERNAL COMMERCE ISSUED COMMUNIQUE OCTOBER 11 ANNOUNCING COUNCIL OF MINISTERS AUTHORIZATION FOR NATIONAL WINE

BOARD TO CONCLUDE WINE SALE TO SOVIET UNION. CONTRACT IS FOR 600,000 LITERS OF WHITE WINE AT US\$12.30 PER HECTOLITER (FOB). COMMUNIQUE STATED THAT, AT EXCHANGE RATE OF OCTOBER 6, PRICE EQUATES TO 3.375 ESCUDOS PER LITER. (COMMENT: THIS PRICE IS LESS THAN THE FOUR ESCUDOS GOP PAID SMALL AND MEDIUM PRODUCERS FOR SAME WINE.) ACCEPTANCE OF LOW PRICE JUSTIFIED, COMMUNIQUE INDICATED, BY COUNTRY'S EXCESSIVE STOCKS. GOP WILL, HOWEVER, ATTEMPT TO CHANGE PART OF WINE CONTRACT FROM FOB TO CIF IN ORDER TO INCREASE TOTAL RETURNS TO PORTUGAL.

4. COMMUNIQUE STATED THAT GOP HAD CONTRACTED TO SELL SOVIET UNION 500 TONS OF ALMONDS AT US\$2,381 PER TON (FOB) AND 30,000 TONS OF TOMATO PASTE AT US\$505 PER TON (FOB).

5. COMMENT: A. ALL THREE CONTRACTS MUST HAVE BEEN SEVERE DIS-APPOINTMENTS FOR GOP. WINE PRICE IS PUBLICLY KNOWN TO BE BELOW ESCUDO PRODUCTION COST; TOMATO PRODUCERS CLAIM THAT TOMATO PASTE PRICE IS BELOW COST; AND REGIONAL AUTHORITY OF NATIONAL FRUIT BOARD BELIEVES ALMOND SALE IS ALSO VERY LIKELY BELOW COST. MOREOVER, AS IN CASE OF WINE, PRICE FOR ALMONDS IS LOWER THAN SIMILAR CONTRACT EARLIER THIS YEAR. GOP APPARENTLY HAD DIFFICULTY CONVINCING ITSELF TO SIGN WINE AND ALMOND CONTRACTS. DECISION TO SIGN ALL THREE AGREEMENTS APPARENTLY REACHED BECAUSE OF EXCESSIVE STOCKS AND PORTUGAL'S PRESSING NEED FOR FOREIGN EXCHANGE. EVEN CONSIDERING THESE FACTORS, CONTRACTS MUST HAVE REPRESENTED BITTER PILL FOR GOP, AND ESPECIALLY FOR THOSE OFFICIALS WHO HAD CONSIDERED SOVIET UNION A PROMISING MARKET AND A POSSIBLE SOURCE OF ASSISTANCE.

B. RUSSIAN SALES CONTRACTS, CONCLUDED IN COMPETITION WITH SEVERAL OTHER COUNTRIES, DEMONSTRATED THAT OVER-VALUATION OF ESCUDO HAS REACHED POINT OF DAMAGING EXPORTS OF EVEN PRIMARY PRODUCTS. OVER-VALUATION, MOREOVER, WILL TEND TO INCREASE BECAUSE OF PORTUGAL'S COMPARATIVELY HIGH INFLATION RATE. GOP LIMITED OFFICIAL USE

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PAGE 04 LISBON 06053 141456Z

UNDOUBTEDLY AWARE OF THIS TREND AND, PRESUMABLY, IS CONSIDERING NECESSITY OF ESCUDO DEVALUATION AS WELL AS OTHER IMPORT-DISCOURAGING MEASURES.

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